



**Umhlabuyalingana Local Municipality
Annual Financial Statements
for the year ended 30 June 2019**

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

General Information

Legal form of entity	Municipality KZN 271
Nature of business and principal activities	The main purposes of the municipality is to engage in local governance activities which include planning and promotions of integrated development planning, economic and environmental development and supplying of services to the community.
Executive committee	
Mayor	Cllr. NS Mthethwa
Deputy Mayor	Cllr. FG Mlambo
Speaker	Cllr. BT Tembe
Grading of local authority	Medium capacity municipality
Accounting Officer	Mrs. NP Gamede
MPAC Chairperson	Cllr. SP Mthethwa
Chief Finance Officer (CFO)	Mr. NPE Myeni
Exco Members	Cllr. BN Ntsele Cllr. SN Tembe Cllr. MD Mathenjwa Cllr. MZ Mhlongo Cllr. ZM Mhlongo
Registered office	Municipal Building Kwangwanase 3973
Postal address	Private Bag X 901 Kwangwanase 3973
Bankers	First National Bank of South Africa
Attorneys	Maseko Mbatha Attorneys

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

General Information

List of councilors in office

Cllr. KO Tembe
Cllr. TN Magagula
Cllr. LD Tembe
Cllr. M Mthembu
Cllr. SG Nxumalo (Resigned: 31 October 2018)
Cllr. GS Mthembu
Cllr. DA Tembe
Cllr. MI Mthembu
Cllr. N Vumase
Cllr. JB Gwala
Cllr. NJ Ndabeni
Cllr. NC Mdletshe
Cllr. EG Mhlongo
Cllr. JE Sithole
Cllr. BC Zikhali
Cllr. SM Ndlovu
Cllr. TS Myeni
Cllr. LE Mkhwanazi
Cllr. JG Ngubane
Cllr. SS Gumede
Cllr. BJ Tembe
Cllr. MD Mathenjwa
Cllr. TL Mlambo
Cllr. HK Gumede
Cllr. TS Khumalo
Cllr. TJ Nxumalo
Cllr. ET Nxumalo (Appointed: 19 April 2019)

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

	Page
Accounting Officer's Responsibilities and Approval	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	9 - 10
Accounting Policies	10 - 30
Notes to the Annual Financial Statements	31 - 66

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
CIGFARO	Chartered Institute of Government Finance, Audit and Risk Officers(Previously IMFO)
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Umhlabyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2020, and in the light of this review and the current financial position, she is satisfied that the municipality has, or has access to, adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that Mhlabyalingana Municipality has neither the intention nor the need to liquidate or materially curtail the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 66, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2019 and were signed on its behalf by:

Accounting Officer
Mrs. NP Gamede

Saturday, 31 August 2019

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Inventories	7	188,694	126,206
Receivables from non-exchange transactions	8&10	26,288,248	11,912,206
Receivables from exchange transactions	9	600,047	1,165,325
Cash and cash equivalents	11	49,652,113	34,628,447
		76,729,102	47,832,184
Non-Current Assets			
Property, plant and equipment	3	300,761,188	288,549,507
Intangible assets	4	825,183	1,078,775
		301,586,371	289,628,282
Total Assets		378,315,473	337,460,466
Liabilities			
Current Liabilities			
Operating lease liability	5	16,064	-
Payables from exchange transactions	14	12,975,331	12,457,198
VAT payable	15	3,809,162	4,699,055
Employee benefit obligation	6	150,033	113,296
Unspent conditional grants and receipts	12&23	9,422,729	3,325,741
Provisions	13	7,765,494	-
		34,138,813	20,595,290
Non-Current Liabilities			
Employee benefit obligation	6	2,223,118	1,830,916
Provisions	13	9,440,966	15,378,504
		11,664,084	17,209,420
Total Liabilities		45,802,897	37,804,710
Net Assets		332,512,576	299,655,756
Accumulated surplus		332,512,576	299,655,756

* See Note 39 & 38

Umhlalabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
REVENUE			
Revenue from exchange transactions			
Refuse Removal	17	583,201	283,330
Interest on Rates - Debtors		1,014,610	1,268,136
Licences and permits		3,567,590	3,882,020
Commissions received	18	80,323	62,386
Rental income	19	367,907	303,161
Other income	20	559,995	237,810
Interest received - investment	21	4,802,233	3,273,313
Gain on disposal of assets and liabilities	3	-	156,313
Actuarial gains	6	-	305,613
Impairment gain	10	6,224,349	-
Total revenue from exchange transactions		17,200,208	9,772,082
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	19,963,019	19,829,577
Transfer revenue			
Government grants & subsidies	23	194,914,176	178,138,762
Public contributions and donations	24	812,637	107,497
Fines, Penalties and Forfeits		1,567,950	1,606,000
Total revenue from non-exchange transactions		217,257,782	199,681,836
Total revenue	16	234,457,990	209,453,918
EXPENDITURE			
Employee related costs	25	(66,559,952)	(58,301,900)
Remuneration of councilors	26	(12,471,999)	(12,161,272)
Depreciation and amortisation	27	(22,623,650)	(21,564,593)
Impairment loss	28	(3,354,118)	(2,909,386)
Finance costs	29	(1,306,763)	(1,125,401)
Lease rentals on operating lease		(2,136,576)	(1,720,903)
Debt Impairment	30	(1,314,887)	(8,015,671)
Inventory consumed		(2,909,810)	(2,245,784)
Assets write-off	31	(671,628)	(112,712)
Contracted services	32	(39,682,059)	(33,933,986)
Transfers and subsidies	34	(2,872,501)	(3,006,668)
Operational cost	33	(44,579,679)	(31,460,703)
Loss on disposal of assets and liabilities		(1,067,852)	-
Actuarial losses	6	(49,695)	-
Total expenditure		(201,601,169)	(176,558,979)
Surplus for the year		32,856,821	32,894,939

* See Note 39 & 38

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	270,041,434	270,041,434
Adjustments		
Prior year adjustments	(3,122,027)	(3,122,027)
Balance at 01 July 2017 as restated*	266,919,407	266,919,407
Changes in net assets		
Surplus for the year	32,894,939	32,894,939
Prior year adjustment	(158,590)	(158,590)
Total changes	32,736,349	32,736,349
Restated* Balance at 01 July 2018	299,655,755	299,655,755
Changes in net assets		
Surplus for the year	32,856,821	32,856,821
Total changes	32,856,821	32,856,821
Balance at 30 June 2019	332,512,576	332,512,576
Note(s)		

* See Note 39 & 38

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Cash receipts from customers and other		22,798,422	20,716,262
Grants		223,011,000	178,138,762
Interest income		4,802,233	3,273,313
Other receipts		4,048,481	5,488,020
		<u>254,660,136</u>	<u>207,616,357</u>
Payments			
Employee costs		(79,055,704)	(70,363,172)
Suppliers		(121,712,463)	(82,583,196)
Interest Paid		(3,384)	(8,069)
		<u>(200,771,551)</u>	<u>(152,954,437)</u>
Net cash flows from operating activities	35	<u>53,888,585</u>	<u>54,661,920</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(39,244,310)	(38,416,794)
Proceeds from sale of assets	3	448,422	268,274
Purchase of other intangible assets	4	(69,031)	(145,730)
Net cash flows from investing activities		<u>(38,864,919)</u>	<u>(38,294,250)</u>
Net decrease in cash and cash equivalents		15,023,666	16,367,670
Cash and cash equivalents at the beginning of the year		34,628,447	18,260,777
Cash and cash equivalents at the end of the year	11	<u>49,652,113</u>	<u>34,628,447</u>

* See Note 39 & 38

Umhlalabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Refuse Removal	201,600	469,400	671,000	583,201	(87,799)	Note 46.1
Licences and permits	4,082,520	(1,242,520)	2,840,000	3,567,590	727,590	Note 46.2
Commissions received	-	77,480	77,480	80,323	2,843	Note 46.3
Rental income	271,000	142,000	413,000	367,907	(45,093)	Note 46.4
Other income	1,913,257	10,711,898	12,625,155	559,995	(12,065,160)	Note 46.5
Interest on Outstanding Debtors	868,640	153,706	1,022,346	1,014,610	(7,736)	Note 46.6
Interest received - Investment	3,860,465	(2,570,465)	1,290,000	4,802,233	3,512,233	Note 46.7
Impairment gain	-	-	-	6,224,349	6,224,349	Note 46.8
Total revenue from exchange transactions	11,197,482	7,741,499	18,938,981	17,200,208	(1,738,773)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	19,516,725	446,294	19,963,019	19,963,019	-	
Transfer revenue						
Government grants	178,051,000	945,000	178,996,000	194,914,176	15,918,176	Note 46.9
Public contributions and donations	-	812,637	812,637	812,637	-	
Fines	1,915,100	(89,100)	1,826,000	1,567,950	(258,050)	Note 46.10
Total revenue from non-exchange transactions	199,482,825	2,114,831	201,597,656	217,257,782	15,660,126	
Total revenue	210,680,307	9,856,330	220,536,637	234,457,990	13,921,353	
Expenditure						
Employee related cost	(58,375,530)	(17,604,470)	(75,980,000)	(66,559,952)	9,420,048	Note 46.11
Remuneration of councilors	(12,210,303)	(680,697)	(12,891,000)	(12,471,999)	419,001	Note 46.12
Depreciation and amortisation	(23,238,998)	(1,477,557)	(24,716,555)	(22,623,650)	2,092,905	Note 46.13
Impairment loss	-	(3,654,118)	(3,654,118)	(3,354,118)	300,000	Note 46.14
Finance costs	(250,000)	(1,288,000)	(1,538,000)	(1,306,763)	231,237	Note 46.15
Lease rentals on operating lease	(450,000)	(1,703,442)	(2,153,442)	(2,136,576)	16,866	Note 46.16
Debt Impairment	(16,012,747)	14,022,232	(1,990,515)	(1,314,887)	675,628	Note 46.17
Contracted Services	(6,992,000)	(34,764,774)	(41,756,774)	(39,682,059)	2,074,715	Note 46.18
Transfer and Subsidies	-	(2,873,081)	(2,873,081)	(2,872,501)	580	
Operational Cost	(39,739,000)	(6,488,849)	(46,227,849)	(44,577,679)	1,650,170	Note 46.19
Inventory Consumed	(200,000)	(2,827,936)	(3,027,936)	(2,909,810)	118,126	
Asset write off	-	(677,277)	(677,277)	(671,628)	5,649	
Loss on disposal of assets	-	(1,542,454)	(1,542,454)	(1,067,852)	474,602	Note 46.20
Actuarial losses	-	(60,000)	(60,000)	(49,695)	10,305	Note 46.21
Total expenditure	(157,468,578)	(61,620,423)	(219,089,001)	(201,599,169)	17,489,832	
Surplus before taxation	53,211,729	(51,764,093)	1,447,636	32,858,821	31,411,185	
Surplus for the year excluding capital expenditure	53,211,729	(51,764,093)	1,447,636	32,858,821	31,411,185	
Capital Expenditure	(60,587,330)	19,986,467	(40,600,863)	(39,244,310)	1,356,553	Note 46.22

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Comparison of Budget and Actual amounts	(7,375,601)	(31,777,626)	(39,153,227)	(6,385,489)	32,767,738	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that these assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

Umhlalbuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

1.3 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of property plant and equipment and intangible assets

The municipality's management determines the estimated useful lives and related depreciation charges for infrastructure and community assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

An impairment loss is recognised in the statement of financial performance when there is objective evidence that the debtor is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Umhlalabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.4 Property, plant and equipment (continued)

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	20 -30 years
Borehole	Straight line	20 years
Clinics	Straight line	30 years
Furniture and fixtures	Straight line	7 - 10 years
Motor vehicles	Straight line	5 years
Office equipment	Straight line	3 - 7 years
IT equipment	Straight line	3 years
Creche	Straight line	30 years
Infrastructure	Straight line	30 years
Roads and Paving	Straight line	20 years
Roads and Water	Straight line	3 - 10 years
Gravel Surface	Straight line	10 years
Recreational Facility	Straight line	20 -30 years
Community Halls	Straight line	30 years
Bins and containers	Straight line	15 years
Libraries	Straight line	30 years
Fence	Straight line	5 years
Gates	Straight line	5 - 10 years
Jojo Tanks	Straight line	30 years
Park facilities	Straight line	10 years
Landfill sites	Straight line	30 years
Leased Office Equipment	Straight line	5 years
Specialised vehicles	Straight line	10 years
Special Plant and Equipment	Straight line	10 - 15 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Umhlalbuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.4 Property, plant and equipment (continued)

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 3).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

1.5 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer Software	Straight line	5 years
Other Intangible assets	Straight line	3 years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an municipality's statement of financial position.

A financial asset is:

- cash;
- a residual interest of another municipality; or
- a contractual right to:
 - receive cash or another financial asset from another municipality; or
 - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class

Cash and cash equivalents
Consumer debtors
Receivables and exchange transactions
Receivables and non-exchange transactions
VAT Receivables

Category

Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class

Unspent conditional grants
Consumer deposits
Payables from exchange transactions

Category

Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost

Initial recognition

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.6 Financial instruments (continued)

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its amortised cost plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its amortised cost.

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- a combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the municipality cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.6 Financial instruments (continued)

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly or by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.7 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

1.9 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.10 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Umhlalabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.10 Impairment of non-cash-generating assets (continued)

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.11 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

Umhlalabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.13 Provisions and contingencies (continued)

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating expenses.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Accounting Policies

1.13 Provisions and contingencies (continued)

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, the municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Umhlalabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.14 Revenue from exchange transactions (continued)

Interest

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.15 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Property Rates

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.16 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Accounting by principals and agents

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether a municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that it is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.18 Accounting by principals and agents (continued)

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.19 Value Added Tax (VAT)

The municipality accounts for VAT on an invoice basis.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.21 Unauthorised expenditure

Unauthorised expenditure in relation to a Municipality means any expenditure incurred by a municipality otherwise than in accordance with Section 15 or 11(3), and includes-

- Overspending of the total amount appropriated in the municipality's approved budget;
Overspending of the total amount appropriated for a vote in the approved budget;
Expenditure from a vote unrelated to the department or functional area covered by the vote;
Expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose.
- Expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Accounting Policies

1.23 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Use of an estimate

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.25 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.26 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisation's (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2019/07/01 to 2020/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.27 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.27 Related parties (continued)

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.28 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.29 Commitments

Items are classified as commitments where the municipality commits itself into future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- Approved and contracted commitments;
- Where the expenditure has been approved and the contract has been awarded at the reporting date; and
- Where disclosure is required by specific GRAP standard.

The municipality will disclose authorised operational and capital expenditure, that which has been approved and contracted for and that which has been approved and not yet contracted for. Outstanding operating lease commitments owing by the municipality and the periods in which payments fall due will also be disclosed.

Commitments are disclosed under note 36 of the annual financial statements.

1.30 Retention

Retention is also commonly called retainage and is a term referring to the percentage of payment held back from a construction contract. This is a financial term and the owners of a building, or those who are paying for its work to be done, take the lead in drawing up and enforcing the retention plan. General contractors sometimes have retention plans as well

Retention is a percentage of the amount certified as due to the contractor on an interim certificate, that is deducted from the

Accounting Policies

1.30 Retention (continued)

amount due and retained by the client. The purpose of retention is to ensure that the contractor properly completes the activities required of them under the contract. Retention can also be applied to nominated sub-contractors, and the main contractor may also apply retention to domestic sub-contractors.

- Often the percentage of retention ranges from 5% to 10% depending on:

a) The risk of the project, if the risk of failure is high then the percentage will be at maximum 10%.

b) The experience of the awarded contractor, if the contractor has minimum experience of the work to be executed then the percentage will be maximum 10%.

- Half of the amount retained is released on certification of practical completion ('substantial completion' for Institution of Civil Engineers (ICE) contracts) and the remainder is released upon certification of making good defects (or 'final statement' for design and build contracts such as Joint Contracts Tribunal (JCT)).

- Interim certificates should make clear the amount of retention and a statement should also be prepared showing retention for nominated sub-contractors. The contract may require that retention is kept in a separate bank account and that this is certified to contractors. In this case, the client will generally keep any interest paid on the account.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	01 April 2020	Unlikely there will be a material impact
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2020	Unable to reliably estimate the impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	Unable to reliably estimate the impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unable to reliably estimate the impact
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2019	Unable to reliably estimate the impact
• Directive 7 (revised): The Application of Deemed Cost	01 April 2019	Unlikely there will be a material impact

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	658,992	-	658,992	658,992	-	658,992
Buildings	39,033,094	(11,872,797)	27,160,297	38,960,194	(10,582,685)	28,377,509
Infrastructure assets	371,577,653	(109,274,414)	262,303,239	333,999,825	(87,004,761)	246,995,064
Other property, plant and equipment	18,866,086	(8,227,426)	10,638,660	21,501,615	(8,983,673)	12,517,942
Total	430,135,825	(129,374,637)	300,761,188	395,120,626	(106,571,119)	288,549,507

Reconciliation of property, plant and equipment - 30 June 2019

	Opening balance	Additions	Additions through WIP	Disposals	Transfers received	Transfers	Donated assets	Write off	Depreciation	Impairment loss	Total
Land	658,992	-	-	-	-	-	-	-	-	-	658,992
Buildings	28,377,509	72,900	-	-	-	-	-	-	(1,290,112)	-	27,160,297
Infrastructure assets	246,995,064	-	37,577,826	-	25,538,713	(25,538,713)	-	-	(18,915,533)	(3,354,118)	262,303,239
Other property, plant and equipment	12,517,942	1,593,584	-	(1,516,274)	-	-	812,361	(665,279)	(2,103,674)	-	10,638,660
	288,549,507	1,666,484	37,577,826	(1,516,274)	25,538,713	(25,538,713)	812,361	(665,279)	(22,309,319)	(3,354,118)	300,761,188

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Additions through WIP	Transfers received	Transfers	Write off	Depreciation	Impairment loss	Impairment reversal	Total
Land	658,992	-	-	-	-	-	-	-	-	658,992
Buildings	29,664,198	75,000	-	-	-	-	(1,294,610)	(67,079)	-	28,377,509
Electrification	3,736,617	-	-	-	(3,736,617)	-	-	-	-	-
Infrastructure assets	229,560,960	13,962,470	20,703,775	-	3,736,617	-	(18,126,437)	(2,842,321)	-	246,995,064
Other property, plant and equipment	10,677,309	3,675,549	-	107,497	-	(111,961)	(1,986,766)	-	156,314	12,517,942
	274,298,076	17,713,019	20,703,775	107,497	-	(111,961)	(21,407,813)	(2,909,400)	156,314	288,549,507

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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3. Property, plant and equipment (continued)

Property, plant and equipment in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of property, plant and equipment

Buildings	-	38,907,086
Infrastructure - Multipurpose Centre	23,584,045	-
Infrastructure- Community Halls	17,241,246	-
Infrastructure- Market Stalls	2,226,558	-
Infrastructure- Bridge and Causeway	2,691,242	-
Infrastructure - Roads	9,121,893	-
Infrastructure - Sportfields	320,903	-
Youth Enterprise	887,970	-
Infrastructure	-	5,127,659
	56,073,857	44,034,745

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected

Manguzi Multipurpose	23,584,045	20,842,953
Manguzi Multipurpose Centre is a multi year project, and estimated to be completed December 2019. Contractor surrendered the contract and the municipality is awaiting for new specification for re-advertisement to commence with the project.		
	23,584,045	20,842,953

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Total
Opening balance	44,034,745	44,034,745
Additions/capital expenditure	37,577,826	37,577,826
Transferred to completed items	(25,538,713)	(25,538,713)
	56,073,858	56,073,858

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Total
Opening balance	22,695,309	3,736,617	26,431,926
Additions/capital expenditure	35,301,906	28,141,103	63,443,009
Transferred to completed items	(13,962,470)	(31,877,720)	(45,840,190)
	44,034,745	-	44,034,745

Umhlalabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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3. Property, plant and equipment (continued)

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Contracted Services - Plumbing	19,900	95,014
Contracted services - G5 Material	186,355	192,000
Contracted services - G7 Material	180,000	85,769
Contracted - Hiring Excavator	375,500	310,500
Contracted Service - Hiring of Grader	323,390	227,500
TLB hire	241,624	-
Tipper truck	394,134	-
Potholes	189,900	-
Locksmith	-	31,655
Contracted Service - Building Renovations	405,040	128,190
Gate repair	54,650	-
Contracted Service - Paving	-	470
Service Septic Tanks	26,501	32,000
Road Markings	-	120,600
Tree Cutting	-	238,603
Computer Repair	-	66,856
Aircon Regas	77,560	58,960
Water pump	36,080	-
Electrical	20,777	4,200
Contracted Service - Motor Vehicle	3,012,532	2,239,779
Contracted Service - Grass Cutting	-	75,461
Painting	65,000	-
Bridge repair	-	113,515
Spares machinery	59,341	-
Glass and Window replacement	-	195,250
Parking shelters	-	26,800
Markets roof repair	-	27,100
Borehole repair	-	51,700
Building	219,558	-
Roads	2,134,997	-
	8,022,839	4,321,922

Repairs and Maintenance

Employee related cost	576,759	464,869
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A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

4. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,773,838	(948,655)	825,183	1,716,101	(637,326)	1,078,775

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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4. Intangible assets (continued)

Reconciliation of intangible assets - June 2019

	Opening balance	Additions	Write off	Amortisation	Total
Computer software	1,078,775	69,031	(8,293)	(314,330)	825,183

Reconciliation of intangible assets - June 2018

	Opening balance	Additions	Write Off	Amortisation	Total
Computer software, other	1,090,577	145,730	(752)	(156,780)	1,078,775

5. Operating lease liability

Current liabilities	(16,064)	-
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Operating lease payments have been recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments have been recognised as an operating lease liability.

6. Employee benefit obligations

Long Service Awards

The Council offers employees leave awards that may be exchanged for cash on certain anniversaries

of commencing service and a retirement gift determined by reference to length of service.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out as

at 30 June 2019 by Independent Actuarial One Pangaea Financial ('OPF'), Fellow of the Actuarial Society of South Africa. The

present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
6. Employee benefit obligations (continued)		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Opening balance	(1,944,212)	(1,795,964)
Service cost	(312,918)	(311,973)
Interest cost	(180,451)	(166,547)
Expected benefit payment	114,125	24,659
Actuarial (gain)/loss	(49,695)	305,613
	(2,373,151)	(1,944,212)
Non-current liabilities	(2,223,118)	(1,830,916)
Current liabilities	(150,033)	(113,296)
	(2,373,151)	(1,944,212)
Assumptions used at the reporting date:		
Discount rates used		
General Inflation Rate	9.17 %	9.50 %
Consumer Price Index (CPI)	5.29 %	6.02 %
Real Rate	6.29 %	7.02 %
Net discount rate	2.71 %	2.32 %
	-	-
	63	63
Members withdrawn from services: (Average for males and females)		
Age 20	12.00 %	12.00 %
Age 25	6.60 %	6.60 %
Age 30	5.10 %	5.10 %
Age 35	3.60 %	3.60 %
Age 40	2.60 %	2.60 %
Age 45	1.80 %	1.80 %
Age 50	1.10 %	1.10 %
	-	-
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	(1,944,212)	(1,795,964)
Service cost	(312,918)	(311,973)
Interest cost	(180,451)	(166,547)
Expected benefit payment	114,125	24,659
Actuarial loss/(gain)	(49,695)	305,613
	(2,373,151)	(1,944,212)
Net expense recognised in the statement of financial performance		
Current service cost	312,918	311,973
Interest cost	180,451	166,547
Actuarial loss/(gains)	49,695	(305,613)
Settlement	(114,125)	(12,744)
	428,939	160,163

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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6. Employee benefit obligations (continued)

Demographic and Decrement Assumption

The following withdrawal assumptions were applicable over the prior and current valuation periods:

20	12.00 %	12.00 %
25	6.60 %	6.60 %
30	5.10 %	5.10 %
35	3.60 %	3.60 %
40	2.60 %	2.60 %
45	1.80 %	1.80 %
50	1.10 %	1.10 %

GRAP25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligation.

The methodology of setting the financial assumptions has been updated to be more duration specific. At the previous valuation report, 30 June 2018 the duration of liabilities was 9.52 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 29 June 2019 is 9.17% per annum, and the yield on inflation linked bonds of a similar term was about 3.21% per annum. This implies an underlying expectation of inflation of 5.29% per annum $([1 + 9.17\% - 0.5\%] / [1 + 3.21\%] - 1)$.

We have assumed that salary inflation would exceed general inflation by 1.0% per annum, i.e. 6.29% per annum.

However, it is the relative levels of the discount rate and salary inflation to one another that are important, rather than the nominal values. We have thus assumed a net discount factor of 2.71% per annum $([1 + 9.17\%] / [1 + 6.29\%] - 1)$.

Valuation assumptions

The key assumptions used in the valuation, with the prior year's assumption shown for comparison, are summarised below:

	30 June 2019	30 June 2018
Discount rate	9.17 %	9.50 %
CPI	5.29 %	6.02 %
Salary increase rate	6.29 %	7.02 %
Net Discount Rate	2.71 %	2.32 %

Valuation Method

In accordance with the requirements of GRAP25, the Projected Unit Credit method has been applied. Accrued liabilities are defined as the actuarial present value of all benefits expected to be paid in future based on service accrued to the valuation date and awards projected to retirement date. In determining these liabilities, due allowance has been made for future award increases.

The valuation has been made with reference Actuarial Society of South Africa (ASSA) guidelines, in particular, the Advisory Practice Note 207, and is consistent with the requirements of GRAP25.

7. Inventories

Merchandise	188,694	126,206
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Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
8. Receivables from non-exchange transactions		
Consumer debtors - Rates	24,226,855	10,352,871
Consumer debtors - Traffic Fines	2,061,393	1,559,335
	26,288,248	11,912,206
Included in receivables from non-exchange transactions is:		
Rate Debtors	50,554,697	43,215,081
Traffic Fines	6,475,991	5,278,941
Less: Provisions for the year - Rates	(26,410,078)	(32,862,210)
Less: Provisions Traffic Fines	(4,413,898)	(3,719,606)
	26,206,712	11,912,206
Reconciliation of provision for impairment of receivables from non-exchange transactions		
Rate Debtors		
Opening balance - Rate Debtors	(32,975,213)	(29,081,731)
Bad debts written off	340,788	-
Provision for impairment - Rate Debtors	-	(3,893,482)
Reversal of credit payment	6,224,349	-
	(26,410,076)	(32,975,213)
Traffic Fines		
Opening balance - Traffic Fines	(3,719,606)	(3,183,305)
Provision for impairment - Traffic Fines	(694,292)	(536,301)
	(4,413,898)	(3,719,606)
Receivables from non-exchange transactions past due but not impaired		
Receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2019, R2 495 804 - (2018:R2 577 042) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	895,579	880,004
2 months past due	810,799	886,539
3 months past due	789,426	810,499
9. Receivables from exchange transactions		
Gross balances		
Creditors Overpayment	149,865	831,765
Debtor PMU	9,913	17,388
Refuse	514,868	142,439
Debtors - Rentals	203,781	171,788
Other Debtors	155,726	114,949
	1,034,153	1,278,329
Less: Allowance for impairment		
Refuse	(339,297)	(18,553)
Rentals	(94,809)	(94,451)
	(434,106)	(113,004)

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
9. Receivables from exchange transactions (continued)		
Net balance		
Creditors Overpayment	149,865	831,765
Debtor PMU	9,913	17,388
Debtors-Waste	175,571	123,886
Debtors - Rentals	108,972	77,337
Other debtors	155,726	114,949
	600,047	1,165,325
Creditors Overpayment		
> 365 days	149,865	831,765
Debtors PMU		
Current (0 -30 days)	9,913	17,388
Refuse		
Current (0 -30 days)	98,153	44,203
31 - 60 days	38,219	39,850
61 - 90 days	32,581	31,824
91 - 120 days	32,581	26,562
121 - 365 days	313,232	-
Less: Provision for impairmnt	(339,195)	(18,553)
	175,571	123,886
Rental		
Current (0 -30 days)	60,325	23,369
31 - 60 days	23,710	22,145
61 - 90 days	21,544	20,848
91 - 120 days	15,593	105,426
121 - 365 days	82,334	-
Less: Provision for impairmnt	(94,534)	(94,451)
	108,972	77,337
Other		
Current (0 -30 days)	155,726	114,949
Reconciliation of allowance for impairment		
Contributions to allowance	(434,106)	(113,004)
10. Receivables from non-exchange transactions		
Gross balances		
Consumer debtors - Rates	50,636,933	43,215,081
Fines	6,475,291	5,278,941
	57,112,224	48,494,022
Less: Allowance for impairment		
Consumer debtors - Rates	(26,410,078)	(32,862,210)
Fines	(4,413,898)	(3,719,606)
	(30,823,976)	(36,581,816)

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
10. Receivables from non-exchange transactions (continued)		
Net balance		
Consumer debtors - Rates	24,226,855	10,352,871
Fines	2,061,393	1,559,335
	26,288,248	11,912,206
Included in above is receivables from exchange transactions		
Rate Debtors	50,554,697	43,215,081
Traffic Fines	6,475,991	5,278,941
Less: Allowance for impairment - Rate debtors	(26,410,078)	(32,862,210)
Less: Allowance for impairment - Traffic fines	(4,413,898)	(3,719,606)
	26,206,712	11,912,206
Reconciliation of provision for impairment of receivables from non-exchange transactions		
Rate Debtors		
Opening balance	(32,975,213)	(29,081,731)
Provision for impairment	6,224,349	(3,893,482)
Bad debt written off	340,788	-
	(26,410,076)	(32,975,213)
Traffic fines		
Opening balance	(3,719,606)	(3,183,305)
Provision for impairment	(694,292)	(536,301)
	(4,413,898)	(3,719,606)
Fines		
Current (0 -30 days)	344,297	212,117
31 - 60 days	259,679	159,985
61 - 90 days	429,362	264,524
91 - 120 days	406,530	250,458
121 - 365 days	5,035,423	4,391,857
Less: Allowance for impairment	(4,413,898)	(3,719,606)
	2,061,393	1,559,335

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand 2019 2018

10. Receivables from non-exchange transactions (continued)

Summary of debtors by customer classification

Business

Current (0 -30 days)	11,813,083	611,981
31 - 60 days	347,740	498,619
61 - 90 days	335,271	423,579
91 - 120 days	322,454	414,131
121 - 365 days	8,056,994	15,342,929
	20,875,542	17,291,239
Less: Allowance for impairment	(7,789,042)	(15,546,054)
	13,086,500	1,745,185

Government and ITB

Current (0 -30 days)	760,288	384,665
31 - 60 days	372,375	361,208
61 - 90 days	371,375	360,208
91 - 120 days	371,375	360,208
121 - 365 days	26,627,625	24,535,301
	28,503,038	26,001,590
Less: Allowance for impairment	(18,387,060)	(17,297,602)
	10,115,978	8,703,988

Household and Agriculture

Current (0 -30 days)	76,462	27,519
31 - 60 days	26,154	26,712
61 - 90 days	26,154	26,712
91 - 120 days	26,154	21,080
121 - 365 days	1,021,189	-
	1,176,113	102,023
Less: Allowance for impairment	(233,976)	(18,554)
	942,137	83,469

Total

Current (0 -30 days)	12,649,843	1,024,165
31 - 60 days	746,269	886,539
61 - 90 days	732,800	810,499
91 - 120 days	719,983	795,419
121 - 365 days	35,705,802	39,698,459
	50,554,697	43,215,081
Less: Allowance for impairment	(26,410,078)	(32,862,210)
	24,144,619	10,352,871

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	21	719
Bank balances	43,469,358	28,783,844
Short-term deposits	6,118,671	5,798,641
Cash in Transit	64,063	45,243
	49,652,113	34,628,447

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019			2018		
11. Cash and cash equivalents (continued)						
The municipality had the following bank accounts						
Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
First National Bank - Current Account Hluhluwe - 62025236408	36,620,012	22,304,156	713,704	36,620,012	22,304,156	713,704
First National Bank - Call Account Hluhluwe - 62055161146	-	-	3,902	-	-	3,902
First National Bank - Call Account Hluhluwe - 62266899825	1,341,911	1,352,822	821,240	1,341,911	1,352,822	821,240
First National Bank - Call Account Hluhluwe - 74275256516	4,721,471	4,393,217	4,138,519	4,721,471	4,393,217	4,138,519
Standard Bank - Call Account Empangeni - 068824491	19,727	18,941	18,110	19,727	18,941	18,110
Nedbank - Call Account Richardsbay - 28702097	35,044	33,144	31,376	35,044	33,144	31,376
First National Bank - Call Account Hluhluwe - 62424086785	516	516	484,361	516	516	484,361
First National Bank - Fixed Deposit Account - 74622621601	6,940,955	6,479,688	11,999,747	6,940,955	6,479,688	11,999,747
First National Bank - Call Account Hluhluwe - 62217154351	-	-	2,365	-	-	2,365
Total	49,679,636	34,582,484	18,213,324	49,679,636	34,582,484	18,213,324

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

COGTA - Small Town Rehabilitation	162,260	162,260
Arts and Culture	100,000	100,000
Manguzi Road Project	17,307	17,307
Urban Development	907,195	907,195
INEP Energy Electrification	163	-
Manzengwenya Project	7,500	7,500
M A P	251,168	251,168
Phelandaba Development Grant	178,600	178,600
Nhlanga Lake Restaurant	5,600	5,600
KwaTembe Concrete Project	86,111	86,111
Mbazwana and Munguzi Hubs	160,000	160,000
MIG	29,336	-
Environmental Grant	4	200,000
Cogta energy electrification	591,905	-
Wall to Wall Scheme	502,800	-
Border Development	1,389,280	1,250,000
COGTA Electrification	5,000,000	-
Sports Ground	33,500	-
	9,422,729	3,325,741

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Umhlabyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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12. Unspent conditional grants and receipts (continued)

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

13. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Performance bonus	-	524,574	524,574
Environmental rehabilitation	15,378,504	1,303,382	16,681,886
	15,378,504	1,827,956	17,206,460

Reconciliation of provisions - 2018

	Opening Balance	Additions	Correction of error	Total
Environmental rehabilitation	14,261,171	946,828	170,505	15,378,504
Non-current liabilities		9,440,966		15,378,504
Current liabilities		7,765,494		-
		17,206,460		15,378,504

Performance bonuses

A section 57 bonus provision is also provided for. The bonus is performance based, and is dependant on a performance assessment. The timing of both the leave and bonus is uncertain

Environmental rehabilitation provision

The municipality operates three Landfill sites, which are Thandizwe, Mbazwana and Skhemelele.

The Municipality estimated rehabilitation cost are R16 681 886 (2018: R15 378 504) to restore the landfill site at the end of its useful life, estimated to be 30 years from the date of revaluation. The amount of rehabilitation is dependent on future costs technology, inflation and site consumption. The discount rate of the provision was 8.8% (2018: 8.5%).

The financial implication of rehabilitating the landfill site was determined by the independent practitioner engineer Mpume Naleli Technologies.

The date on which Qhubeka Business Solution valued landfill sites was 30 June 2019. The landfill sites are revalued every four year.

14. Payables from exchange transactions

Trade payables	1,915,206	2,254,462
Accrued leave pay	4,181,003	3,365,172
Accrued bonus	1,306,096	1,179,527
Retention Creditors	4,415,800	5,449,442
Other creditors	77,664	208,595
Debtors with credit balance	82,236	-
Jozini	997,326	-
	12,975,331	12,457,198

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
14. Payables from exchange transactions (continued)		
Ageing trade and other payables		
Trade payables (0-30 days)	1,347,660	2,254,462
15. VAT payable		
VAT payables	3,809,162	4,699,055
16. Revenue		
Service charges	583,201	283,330
Interest received	1,014,610	1,268,136
Licences and permits	3,567,590	3,882,020
Commissions received	80,323	62,386
Rental income	367,907	303,161
Other income	559,995	237,810
Interest received - investment	4,802,233	3,273,313
Property rates	19,963,019	19,829,577
Government grants & subsidies	194,914,176	178,138,762
Public contributions and donations	812,637	107,497
Fines, Penalties and Forfeits	1,567,950	1,606,000
	228,233,641	208,991,992
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	583,201	283,330
Interest received	1,014,610	1,268,136
Licences and permits	3,567,590	3,882,020
Commissions received	80,323	62,386
Rental income	367,907	303,161
Other income	559,995	237,810
Interest received - investment	4,802,233	3,273,313
	10,975,859	9,310,156
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	19,963,019	19,829,577
Transfer revenue		
Government grants & subsidies	194,914,176	178,138,762
Public contributions and donations	812,637	107,497
Fines, Penalties and Forfeits	1,567,950	1,606,000
	217,257,782	199,681,836
17. Refuse removal		
Refuse removal	583,201	283,330
18. Commission received		
Premises		
Motor licensing	80,323	62,386

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
19. Rental Income		
Rental income	367,907	303,161
20. Other income		
Business Licensing	998	3,600
Sundry income	137,046	89,269
Library Income	35,926	24,079
Tender Documents	107,131	90,213
Property clearance revenue	1,950	750
Building plans revenue	15,391	29,899
Insurance refund	252,153	-
Fire Services	9,400	-
	559,995	237,810
21. Investment revenue		
Interest revenue		
Bank	4,802,233	3,273,313
22. Property rates		
Rates		
Residential	334,700	330,000
Commercial	11,173,817	11,008,667
State	12,587,001	12,927,001
Property trust	1,457,500	1,431,000
Less: Income forgone	(5,589,999)	(5,867,091)
	19,963,019	19,829,577
Valuations		
Residential / Hospitality	93,500,000	68,500,000
Commercial	547,075,000	571,225,000
State	687,340,000	656,340,000
State trust Land	-	572,400,000
Municipality	300,000	32,400,000
Protected Area and Trust Land	736,900,000	164,500,000
Place of Worship	4,300,000	4,300,000
	2,069,415,000	2,069,665,000

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2014, annual valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R 0,0025 (2018:0,0025) is applied to property valuations of ITB to determine the assessment rate. The billing remained constant from previous year.

Business Properties are billed at R0.01 (2018: R0,01) per rand for a period. Hospitality will be included in this category.

The new general valuation will be implemented on 01 July 2019.

Protected Area and Public Benefit Organisations are valuated but exempt from billing.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
23. Government grants and subsidies		
Operating grants		
Equitable share	145,676,000	133,848,000
Financial Management Grant	1,900,000	1,900,000
EPWP Grant	3,047,000	4,165,000
Small Town Rehabilitation	-	87,762
Library Grant	1,873,000	1,657,000
Youth Enterprise Programme Grant	1,000,000	-
Skhemelele Nodal	497,200	-
Wall to Wall Scheme	-	1,000,000
Town Planning Grant	5,408,095	-
Enviromental Grant	199,997	-
Sports Grounds	16,500	-
Border Development	1,060,720	-
	160,678,512	142,657,762
Capital grants		
Municipal Infrastructure Grant	34,235,664	35,481,000
	194,914,176	178,138,762
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	48,318,709	44,290,762
Unconditional grants received	145,676,000	133,848,000
	193,994,709	178,138,762
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
COGTA -Small Town Reabilitation		
Balance unspent at beginning of year	162,260	162,260
Conditions still to be met - remain liabilities (see note 12).		
Spatial Development		
Balance unspent at beginning of year	100,000	100,000
Conditions still to be met - remain liabilities (see note 12).		
Project Consolidate Manguzi		
Balance unspent at beginning of year	17,307	17,307
Conditions still to be met - remain liabilities (see note 12).		
Library Grant		
Current-year receipts	1,873,000	1,675,000
Conditions met - transferred to revenue	(1,873,000)	(1,675,000)

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
23. Government grants and subsidies (continued)		
	-	-
Urban Development Grant		
Balance unspent at beginning of year	907,195	907,195
Conditions still to be met - remain liabilities (see note 12).		
Manzengwenya Project		
Balance unspent at beginning of year	7,500	7,500
Conditions still to be met - remain liabilities (see note 12).		
Municipal Assistance Program (MAP)		
Balance unspent at beginning of year	251,168	251,168
Conditions still to be met - remain liabilities (see note 12).		
Phelandaba Development Grant		
Balance unspent at beginning of year	178,600	178,600
Conditions still to be met - remain liabilities (see note 12).		
Nhlanga Lake Restaurant		
Balance unspent at beginning of year	5,600	5,600
Conditions still to be met - remain liabilities (see note 12).		
Kwa Tembe Concrete Project		
Balance unspent at beginning of year	86,111	86,111
Conditions still to be met - remain liabilities (see note 12).		
Mbazwana and Manguzi Hubs		
Balance unspent at beginning of year	160,000	160,000
Conditions still to be met - remain liabilities (see note 12).		
MIG		
Balance unspent at beginning of year	-	-
Current-year receipts	34,265,000	35,481,000
Conditions met - transferred to revenue	(34,235,664)	(35,481,000)
	29,336	-
Conditions still to be met - remain liabilities (see note 12).		
FMG		
Balance unspent at beginning of year	-	-

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
23. Government grants and subsidies (continued)		
Current-year receipts	1,900,000	1,900,000
Conditions met - transferred to revenue	(1,900,000)	(1,900,000)
	-	-
EPWP		
Balance unspent at beginning of year	-	-
Current-year receipts	3,047,000	4,165,000
Conditions met - transferred to revenue	(3,047,000)	(4,165,000)
	-	-
Tourism and Environmental Affairs Grant		
Balance unspent at beginning of year	200,000	200,000
Conditions met - transferred to revenue	(199,996)	-
	4	200,000
INEP Electrification Grant		
Current-year receipts	22,000,000	27,916,223
Conditions met - transferred to revenue	(21,999,837)	(27,916,223)
	163	-
Cogta electrification grant		
Current-year receipts	5,000,000	-
Conditions still to be met - remain liabilities (see note 12).		
Wall to Wall Scheme		
Balance unspent at beginning of year	-	1,000,000
Current-year receipts	-	(1,000,000)
	-	-
Small Town		
Balance unspent at beginning of year	-	87,762
Conditions met - transferred to revenue	-	(87,762)
	-	-
Border Development		
Balance unspent at beginning of year	1,250,000	-
Current-year receipts	1,200,000	1,250,000
Conditions met - transferred to revenue	(1,060,720)	-
	1,389,280	1,250,000
Conditions still to be met - remain liabilities (see note 12).		
Youth Enterprise		
Current-year receipts	1,000,000	-
Conditions met - transferred to revenue	(1,000,000)	-

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
23. Government grants and subsidies (continued)		
	-	-
Skhemelele Nodal		
Current-year receipts	1,000,000	-
Conditions met - transferred to revenue	(497,200)	-
	502,800	-
Conditions still to be met - remain liabilities (see note 12).		
Town Planning		
Current-year receipts	6,000,000	-
Conditions met - transferred to revenue	(5,408,095)	-
	591,905	-
Conditions still to be met - remain liabilities (see note 12).		
Sports Ground		
Current-year receipts	50,000	-
Conditions met - transferred to revenue	(16,500)	-
	33,500	-
Conditions still to be met - remain liabilities (see note 12).		
24. Public contributions and donations		
Public contributions and donations	812,637	107,497

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand 2019 2018

25. Employee related costs

Basic	47,657,488	42,375,835
Cellphone Allowance	739,166	534,788
Performance Bonus	1,320,440	582,534
Medical aid - company contributions	1,962,783	1,710,289
UIF	355,318	307,722
Leave pay provision charge	816,602	670,971
Overtime payments	1,534,501	1,498,268
Long-service awards	393,268	478,520
13th Cheques	2,489,539	2,303,283
Acting allowances	510,291	368,950
Car allowance	2,832,000	2,680,980
Standby Allowance	529,005	405,981
GroupLife Insurance	471,783	440,450
SALGBC - Levies	16,091	14,570
Rural Allowance	508,430	517,553
Pension	4,423,247	3,411,206
	66,559,952	58,301,900

Remuneration of Municipal Manager (NP Gamede)

Annual Remuneration	1,176,952	1,052,021
Car Allowance	180,000	162,486
Performance Bonuses	140,147	-
Backpay	-	46,011
Contributions to UIF, Medical and Pension Funds	30,342	15,357
Cellphone allowance	32,400	27,081
Rural Allowance	119,536	119,617
	1,679,377	1,422,573

Remuneration of Chief Finance Officer

Annual Remuneration	997,316	951,984
Car Allowance	162,000	162,000
Performance Bonuses	116,398	116,398
Contributions to UIF, Medical and Pension Funds	28,290	28,789
Backpay	-	45,333
Cellphone allowance	27,600	25,200
Rural Allowance	108,798	108,798
	1,440,402	1,438,502

Remuneration of Director - Community Services

Annual Remuneration	-	891,933
Car Allowance	-	152,246
Performance Bonuses	-	116,398
Contributions to UIF, Medical and Pension Funds	-	27,465
Cellphone allowance	-	23,683
Backpay	-	45,333
Leave	-	53,805
Other	-	102,247
	-	1,413,110

Remuneration Former Municipal Manager (SE Bukhosini) resigned 30 July 2017

Annual Remuneration	-	92,021
Car Allowance	-	15,000

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
25. Employee related costs (continued)		
Performance Bonuses	130,209	-
Contributions to UIF, Medical and Pension Funds	-	4,428
Cellphone allowance	-	2,500
Rural Allowance	-	11,043
Leavepay	-	182,979
	130,209	307,971
Remuneration Corporate and Human Resources (Corporate Services)		
Annual Remuneration	997,316	951,984
Car Allowance	162,000	162,000
Performance Bonuses	116,398	116,398
Contributions to UIF, Medical and Pension Funds	28,355	28,762
Backpay	-	45,333
Cellphone allowance	27,600	25,200
Rural Allowance	108,798	108,798
	1,440,467	1,438,475
Remuneration Community director S.Shange (Acting)		
Annual Remuneration	227,354	-
Rural allowance	45,333	-
	272,687	-
Remuneration of Director Technical Services		
Annual Remuneration	864,397	825,107
Car Allowance	162,000	162,000
Performance Bonuses	103,131	103,131
Contributions to UIF, Medical and Pension Funds	180,439	173,488
Backpay	-	39,291
Cellphone allowance	27,600	25,200
Rural Allowance	94,298	94,298
	1,431,865	1,422,515
26. Remuneration of Councillors		
Mayor	872,239	840,312
Deputy Mayor	706,600	681,131
Exco Members	1,382,704	1,301,318
Speaker	706,600	681,131
Councillors	3,490,181	5,438,105
Travel Allowance	3,902,675	2,134,475
Cell phone Allowance	1,411,000	1,084,800
	12,471,999	12,161,272

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
26. Remuneration of Councillors (continued)		
In-kind benefits		
The Mayor, Deputy Mayor, Speaker are full-time councillors. Each is provided with an office and secretarial support at the cost of the Council.		
The Mayor has use of a Council owned vehicle for official duties.		
The Mayor has three full-time bodyguards . The Deputy Mayor and speaker have two full-time bodyguards.		
Mayor Cllr N.S Mthethwa		
Annual Remuneration	604,894	580,353
Car Allowance	201,631	193,451
Backpay	21,224	32,608
Cellphone Allowance	40,800	30,300
Mobile data	3,600	3,600
SDL	8,308	8,005
	880,457	848,317
Deputy Mayor Cllr F.G Mlambo		
Annual Remuneration	483,916	464,283
Car Allowance	161,305	154,761
Re-imbursive allowance	-	163,032
Backpay	16,979	23,765
Cellphone Allowance	40,800	30,300
Mobile data	3,600	3,600
SDL	6,613	6,567
	713,213	846,308
Speaker Cllr B.T Tembe		
Annual Remuneration	483,916	464,283
Car Allowance	161,305	154,761
Cellphone Allowance	40,800	30,300
Data Allowance	3,600	3,600
Backpay	16,979	28,187
SDL	6,550	5,925
	713,150	687,056
Exco Members Cllr B.N Ntsele		
Annual Remuneration	253,094	241,517
Car Allowance	84,365	80,506
Performance Bonuses	8,881	21,496
Contributions to UIF, Medical and Pension Funds	4,071	3,671
Data Allowance	3,600	3,600
Cellphone allowance	40,800	30,300
	394,811	381,090
Exco Member Cllr S.N Tembe		
Annual Remuneration	253,094	241,517
Car Allowance	84,365	80,506
Cellphone Allowance	40,800	30,300
Data Allowance	3,600	3,600
Backpay	8,881	21,496
Contributions to UIF, Medical and Pension Funds	3,911	3,677
	394,651	381,096

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
26. Remuneration of Councillors (continued)		
Exco Member Cllr M.D Mathenjwa		
Annual Remuneration	253,094	241,517
Car Allowance	84,365	80,506
Cellphone Allowance	40,800	30,300
Data Allowance	3,600	3,600
Backpay	8,881	21,496
Contributions to UIF, Medical and Pension Funds	3,937	3,653
	394,677	381,072
Exco Member Cllr Z.M Mhlongo		
Annual Remuneration	253,094	241,517
Car Allowance	84,365	80,506
Cellphone Allowance	40,800	30,300
Data Allowance	3,600	3,600
Backpay	8,881	21,496
Contributions to UIF, Medical and Pension Funds	3,890	3,642
	394,630	381,061
Exco Member Cllr M.Z Mhlongo		
Annual Remuneration	253,094	241,517
Car Allowance	84,365	80,506
Cellphone Allowance	40,800	30,300
Data Allowance	3,600	3,600
Backpay	8,881	21,496
Contributions to UIF, Medical and Pension Funds	4,121	3,669
	394,861	381,088
27. Depreciation and amortisation		
Property, plant and equipment	22,309,319	21,407,813
Intangible assets	314,331	156,780
	22,623,650	21,564,593
28. Impairment of assets		
Impairments		
Impairment Fixed Assets	3,354,118	2,909,386
Certain Property, Plant and Equipment were considered for Impairment in the current period due to lack of maintenance in some areas of Sportsfield. Impairment reversal was also considered on Access Roads as they were maintained and the useful life increased. The recoverable amount of the asset was based on its fair value less costs to sell.		
The main classes of assets affected by impairment losses are:		
Sportsfields		
There's lack of maintenance on the local sportfields. It has been visible through verification that soccerfields are not maintained and possibly vandalism on the facilities. Impairment was recommended until facilities are maintained.		
29. Finance costs		
Interest overdue accounts	3,384	8,069
Other interest	1,303,379	1,117,332
	1,306,763	1,125,401

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
30. Debt impairment		
Contributions to debt impairment provision	434,106	4,429,784
Bad debts written off	880,781	3,585,887
	1,314,887	8,015,671
31. Asset Write Off		
Property Plant and Equipment write off	671,628	112,712
32. Contracted services		
Outsourced Services		
Administrative and Support Staff	371,266	448,702
Burial Services	195,501	101,570
Catering Services	8,014,307	5,288,303
Clearing and Grass Cutting Services	244,800	42,500
Fire Services	-	35,280
Internal Auditors	2,057,770	2,798,974
Professional Staff	322,163	870,015
Refuse Removal	197,116	-
Researcher	432,362	111,343
Security Services	7,765,848	6,630,630
Drivers Licence Cards	783,781	472,563
Consultants and Professional Services		
Business and Advisory	4,849,530	6,969,672
Infrastructure and Planning	2,554,467	1,851,709
Legal Cost	922,358	1,833,730
Contractors		
Artists and Performers	822,482	873,802
Audio-visual Services	-	19,760
Catering Services	526,659	35,900
Event Promoters	-	391,550
First Aid	60,918	-
Fire Services	30,913	-
Maintenance of Buildings and Facilities	928,164	599,575
Maintenance of Equipment	3,261,999	2,481,464
Maintenance of Roads	3,995,525	-
Management of Informal Settlements	-	1,240,883
Medical Services	83,182	79,700
Pest Control and Fumigation	198,400	352,355
Photographer	60,000	17,800
Tracing Agents and Debt Collectors	5,250	-
Sports and Recreation	346,398	-
Stage and Sound Crew	650,900	386,206
	39,682,059	33,933,986

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand 2019 2018

33. Operational cost

Operational cost consist of:

Accommodation	3,941,590	3,447,442
Audit fees	1,729,591	1,705,387
Membership fee	-	515,240
SDL	696,174	619,262
Software licence	66,859	-
Tracker	43,428	88,252
Wet Fuel	2,296,627	1,966,749
Advertising	1,057,643	557,936
Postage	1,871	11,859
Eskom connections	72,500	-
Computer expense	1,806,209	2,175,862
Insurance	580,422	461,682
Vehicle licence	101,773	100,435
Honoraria Voluntary Programme	30,000	-
Drivers license	59,171	-
Printing and publication	572,128	477,003
Voluntarily workers	-	228,820
Seating allowance	-	1,408,131
Car Rental	859,020	364,955
Reimbursive travel	3,351,424	1,583,383
Training's & Workshops	1,119,872	540,988
Connection fee	54,550	-
Transportation	157,500	-
Gifts and Promotional	6,470,653	4,769,314
Hire Charges	13,181,860	6,337,792
Bank charges	125,705	128,385
Toll gates	27,595	-
Events	1,047,950	-
Telephone	25,571	-
Water and electricity	980,479	776,750
Uniforms	661,110	1,099,273
Ward Committees	2,511,793	2,096,000
Travel air	92,466	-
Administration	176,852	-
Indigent relief	224,921	-
Electric meters	285,056	-
Caretaker	16,500	-
Permits	150,816	-
	44,577,679	31,460,900

34. Transfers and subsidies

School support	121,800	412,277
Town improvement	402,520	529,619
Fire fighting	719,630	-
Bursaries	-	214,159
Social Relief	1,628,551	1,850,613
	2,872,501	3,006,668

Umhlalabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
35. Cash generated from operations		
Surplus	32,856,821	32,894,939
Adjustments for:		
Depreciation and amortisation	22,623,650	21,564,593
(Profit)/Loss on sale of property, plant and equipment	1,067,852	(156,313)
Actuarial gain/(loss)	49,695	-
Impairment gain	(6,224,349)	-
Donated assets	(812,637)	-
Assets write off	671,628	112,712
Impairment deficit	3,354,118	2,909,386
Debt impairment	1,314,887	-
Operating lease liability	16,064	-
Employee benefit provision	428,939	(215,585)
Movements in provisions	1,827,956	1,117,334
Changes in working capital:		
Inventories	(62,488)	(126,206)
Receivables from non-exchange transactions	(8,394,255)	(841,515)
Receivables from exchange transactions	(554,528)	587,872
Payables from exchange transactions	518,137	(6,828,294)
VAT	(889,893)	6,396,982
Unspent conditional grants and receipts	6,096,988	(2,753,985)
	53,888,585	54,661,920

36. Commitments

Authorised capital expenditure

Commitments

• Kwambila Multipurpose Centre	-	4,390,913
• Posini to Library Road	117,005	-
• Manguzi Multipurpose Centre	-	6,286,071
• Manguzi Stormwater and walkway	727	-
• Skhemelele community market	591,177	-
• Ngutshane Sportfield	-	659,941
• Manzibomvu Community Hall	-	1,399,774
	708,909	12,736,699

Total capital commitments

Already contracted for but not provided for	708,909	12,736,699
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Authorised operational expenditure

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, existing cash resources, funds internally generated or grants.

The amount disclosed for commitments is vat exclusive.

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	1,539,022	-
- in second to fifth year inclusive	542,217	-
	2,081,239	-

Operating lease payments comprises rentals payable by the municipality in respect of office equipment. Leases are negotiated for an average period of two (2) years and rentals vary in terms of a contract of the lease. Certain leases are subject to escalation at a rate of 5% over the lease period. No restrictions are imposed by lease arrangements.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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37. Contingencies

37.1. NATAL JOINT PENSION VS UMHLABUYALINGANA MUNICIPALITY

Natal Joint Municipal Pension Fund (NJMPF) has a claim in terms of Regulation 1 (xxi)(h) of the Regulations to the Natal Joint Municipal Pension Fund (Superannuation). NJMPF have been granted Default Judgment. A warrant of execution has been issued, they have attached municipal movable property. Financial exposure including disbursement amounts to R500 000.

The municipality is defending the case using municipal lawyers and the matter have been referred to high court.

37.2 MAPUTALAND CORAL DIVERS VS UMHLABUYALINGANA MUNICIPALITY

The matter is regarding non-payment of municipal rates by the tenant. The municipality is withholding the issuance of business license

Expected outcome, To have tenant comply with the Municipal Rates Act and pay the rates accordingly.
Contingent financial exposure R200 000.

37.3 Department of Labour

This is the potential liability for assessment to be done by Department of Labour on returns due in terms of Compensation for Occupational Injuries and Disease Act (COIDA)

Negotiations are ongoing with Commissioner and the and Labour Court for re-assessment.

Legal Cost will amount to R800 000.

38. Prior period errors

Skhemelele dump site is earmarked for closure and Waste Management Licence for Closure, Decommissioning and Rehabilitation was received from Environmental Affairs in 2016, and the licence is valid for five years. The Municipality also conducted an independent study to determine the cost for decommissioning and closure of the Landfil site. Qhubeka Business Solution gave municipality an estimate.

Estimate was made in 2016 and the interest is accounted for the previous periods.

There was a payment for Long Service award made in 2018, not affected on the report. The report was subsequently amended and journal was processed

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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38. Prior period errors (continued)

Statement of financial performance previously reported

Finance cost	-	(954,896)
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	As previously reported (954,896)	Correction of an error (170,505)	Restated (1,125,401)
Finance cost			

Statement of financial performance current

Finance cost	-	(1,125,401)
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Statement of financial position previously reported

Employee benefit obligation	-	1,956,127
Provision	-	12,085,972

	As previously reported	Correction of an error 2018 (11,915)	Correction of error 2017 -	Restated 1,944,212
Employee benefit obligation	1,956,127	(11,915)	-	1,944,212
Provision	12,085,972	170,505	3,122,027	15,378,504
Net assets	-	(158,590)	(3,122,027)	(3,280,617)
	14,042,099	-	-	14,042,099

Statement of financial position current

Employee benefit obligation	-	1,944,212
Provisions	-	16,681,886
	-	18,626,098

39. Comparatives reclassification

Split between short term and long term portion of employee benefit obligation. This is to show the split into the years in which the payments are expected.

Statement of financial position

2018

	Note	As previously reported	Re-classification	Restated
Employee benefit obligation - Non-current liability		1,956,127	(113,296)	1,842,831
Employee benefit obligation - Current liability		-	113,296	113,296
		1,956,127	-	1,956,127

Statement of financial performance

40. Risk management

Financial risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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40. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	30 June 2019	30 June 2018
Receivables from exchange transactions	600,047	1,165,325
Receivables from non-exchange transactions	26,288,248	11,912,206
Cash and cash equivalents	49,652,113	34,628,447

Refer to note 8 for ageing of receivables as well as note 9 for further disclosure of cash and cash equivalents.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

41. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus of R 332,512,576 and that the municipality's total liabilities exceed its assets by R 332,512,576.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

42. Unauthorised expenditure

Opening balance as previously reported	6,313,535	6,313,535
Opening balance as restated	6,313,535	6,313,535
Less: Amount written off - prior period	(6,313,535)	-
Closing balance	-	6,313,535

Council approved that unauthorised expenditure be written off

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand 2019 2018

43. Fruitless and wasteful expenditure

Opening balance as previously reported	13,081	8,611
Opening balance as restated	13,081	8,611
Add: Expenditure - prior period	-	8,270
Less: Amounts recoverable - current	3,384	-
Less: Amount written off - current	(13,081)	-
Less: Amount written off - prior period	-	(3,800)
Closing balance	3,384	13,081

Council approved fruitless and wasteful expenditure to be written off

44. Irregular expenditure

Opening balance	12,503,193	7,590,530
Add: Irregular Expenditure - current year	1,473,650	4,912,663
Opening balance as restated	13,976,843	12,503,193
Less: Written off	(12,503,193)	-
Closing balance	1,473,650	12,503,193

45. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	713,680	-
Amount paid - current year	(713,680)	-
	-	-

Audit fees

Current year subscription / fee	2,057,770	2,798,974
Amount paid - current year	(2,057,770)	(2,798,974)
	-	-

PAYE and UIF

Current year subscription / fee	12,181,316	11,144,176
Amount paid - current year	(12,181,316)	(11,144,176)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	3,913,423	3,057,550
Amount paid - current year	(3,913,423)	(3,057,550)
	-	-

VAT

VAT payable	3,809,162	4,699,055
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VAT output payables and VAT input receivables are shown in note 15 .

All VAT returns have been submitted by the due date throughout the year.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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46. Actual operating expenditure versus budgeted operating expenditure

46.1 Services Charges

There is a variance of 13% below budget that was estimated to be collected for service charges, this variance has occur as a result of fee properties that are not paying for this service however management will follow the credit control policy and strategies to recover these amounts. Certain properties in the bill system were billed but refuse was not collected from them.

46.2 Licences and permits

The variance is 25% above the budgeted amount that was collected or earned by the municipality, the increase emanated from the fact that our service is faster and people prefer to come to Umhlabuyalingana for this service because they will be assisted faster.

46.3 Commission received

The municipality have achieved more than 100% from the commission received, this has occur because the municipality introduce the new revenue stream from motor licensing from the department of transport where the municipality is getting commission for providing this service on behalf of the department concern.

46.4 Rental Income

The variance is 10% below the estimated budget as a result that certain market stall were closed for few months where renovation were performed, hence the municipality has collected less.

46.5 Traffic fines

There is a variance of 14% below the budget for traffic fines due to that other fines are being reduced and written off by the Magistrate in court when offenders appear in court

46.6 Interest on outstanding debtors

The variance is 0.8% below the estimated budget, which is almost the correct to what was intially planned.

46.7 Interest received from investments

The variance is 272% above the budget amount the was budgeted for interest on investments, the municipality invested more amount to generate more interest in the current financial year.

46.8 Impairment gain

Impairment reversal that was provided for in the financial statement which was not provided for during budget period.

46.9 Government grants

The variance is 9% above the budget grants that were intially planned to be received through Dora, the municipality was given additional grant for electrificaiton and also the spending of previous financial year grants also increased the Government grant revenue.

46.10 Fines

The variance is 14% below the budget, challenge that were incurred by traffic officer as result of shortage of municipal vehicle to perform this function of road visibility caused the under performance.

46.11 Employee related cost

The variance of 12% below the approved budget resulted from the positions that were not filled in the current financial year and also the provision that was made for performance bonuses.

46.12 Remuneration of councilors

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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46. Actual operating expenditure versus budgeted operating expenditure (continued)

The variance of 3% below the approved budget was actual a provision under the councillors remuneration because were not sure of the percentage that was going to be approved by MEC.

46.13 Depreciation and amortisation

The variance of 8% the approved budget resulted from the fact that asset were acquired at a later date and also few assets were not completed during the current financial year wherein the provision was provided in the budget to calculate depreciation.

46.14 Impairment loss

The variance is 8% less the approved budget resulted from the fact that this was just the estimated amount we are relaying to the engineers reports.

46.15 Finance cost

The variance is 15% less the approved budget resulted from the fact that the municipality has raised low interest for Skhemelele dumpsite

46.16 Lease rental

The variance is 8% below the budget because calculation were based on the previous contract that the municipality had by then.

46.17 Debt Impairment

The variance is 34% below the budget, reason being the budget was based on the previous year financial performance for this line item.

46.18 Contracted services

The variance is 5% below the budget reason being the budget was estimate which not far from what was estimated by management.

46.19 Operating cost

The variance is 4 % below the budget reason being that this was estimate which is not for from what management estimated.

46.20 Loss on disposal of assets

The variance is 30 below the budget, management did not plan to dispose asset at a loss but the intention was to make profit on disposal, but asset we disposed through the Auction hence we made a loss.

46.21 Actuarial gains/losses

There's a increase on expenditure compared to budget due to actuarial gains/losses not budgeted for.

46.22 Capital Expenditure

Capital budget has reduced due to certain Grant not expensed in the current period, additional computer equipment, furniture and office equipment has not been purchased during the financial period as budgeted for
Rollover of unspent grants grant received has contributed to increase in original budget.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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47. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

48. Deviations

Assets that have been recognised, but which are subject to restrictions, the amount of restriction are as follows:

Deviations for the year	711,640	548,805
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Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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49. Budget statement

Changes from the approved budget to the final budget

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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49. Budget statement (continued)

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters. Below are the reasons for adjustment budget.

Service charges

Service charges increased by R469 400 because it was discovered that there is a possible revenue loss because refuse was collected to other properties but they were not billed hence there is an increase

Licence and permits

Licences and permits decreased by R1 242 520 because it was discovered that there is another traffic station nearby who provides the same services as us hence there is a decrease in revenue generated from licenses and permits

Rental income

Rental income increased by R142 000 because there was new rental agreement entered into with department of Public Works who are renting an office space in one of our properties

Commissions received

Commission received was not budgeted in the original budget which is why there is a change in the final budget after it has been discovered that we need to recognise revenue on services we perform on behalf of the Department of Transport.

Interest on Investments

There is a decrease of R2 570 465 because grant funds were not invested in short term deposits account to generate more revenue.

Interest on outstanding debtors

Interest on outstanding debtors increased by R153 706 because debtors failed to pay for their accounts on time and the municipality had to charge interest on outstanding accounts.

Other Income

Other revenue increased by R10 711 898 because of investments funds used to fund the operating costs

Property Rates

Property rates increased by R446 294 because budget was understated.

Government Grants

Government grants increased by R945 000 because there we received other grant funds from provincial departments like COGTA

Traffic fines.

Traffic fines budget decreased by R89 100 because there were challenges with speed cameras as well as the shortages in traffic officers

Employee Related Costs

Employee related costs increased by R17 604 470 because there was a provision made for the implementation of new municipal grading.

Councillors remuneration

Councillors remuneration increased by R680 697 because of the implementation of upper limits for councilors

Public Contributions & Donations

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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49. Budget statement (continued)

The adjustment in donation budget is as result , that we received the donation from department of art and culture.

Debt Impairment

Debt impairment decreased by R14 022 232 because the budget was overstated instead of budgeting for the movement.

Depreciation and Amortisation

Depreciation decreased by R1 477 557 because budget was overstated.

Finance charges

Finance charges increased by R1 288 000 because we have to make provision for landfill site rehabilitation.

Contracted Services

Contracted services increased by R34 764 774 because of the re-classification of expenditure as per Mscoa requirements

Tansfers and subsidies .

Transfers and subsidies increased by R2 841 081 because of the re-classification of expenditure as per Mscoa requirements

Inventory consumed

Operational costs

Operational costs increased by R6 520 849 because of the re-classification of expenditure

Inventory consumed increased by R2 827936 bebause of the re-classification of expenditure

Transfers Recognised - Capital

Capital expnditure decreased by R19 986 467 because electrifiction projects had to be moved from capital expenditure to operational expenditure.